



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Federal Single Audit Report**

**North City Water District**

**King County**

**For the period January 1, 2013 through December 31, 2013**

**Published February 23, 2015**

**Report No. 1013644**





**Washington State Auditor**  
**Troy Kelley**

February 23, 2015

Board of Commissioners  
North City Water District  
Shoreline, Washington

**Report on Federal Single Audit**

Please find attached our report on the North City Water District's compliance with federal laws and regulations.

We are issuing this report in order to provide information on specific activities of the District.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

### North City Water District King County January 1, 2013 through December 31, 2013

The results of our audit of the North City Water District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

#### Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

#### Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

**SCHEDULE OF FEDERAL AUDIT FINDINGS AND  
QUESTIONED COSTS**

**North City Water District  
King County  
January 1, 2013 through December 31, 2013**

**2013-002**    **The District’s internal controls were inadequate to ensure compliance with federal Davis-Bacon Act (prevailing wage) and procurement requirements.**

<b>CFDA Number and Title:</b>	66.468 Capitalization Grants for Drinking Water State Revolving Funds
<b>Federal Grantor Name:</b>	U.S. Environmental Protection Agency
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Department of Commerce
<b>Pass-through Award/Contract Number:</b>	DM12-962-112, DM12-962-131
<b>Questioned Cost Amount:</b>	\$0

***Description of Condition***

The District spent \$1,351,612 in Capitalization Grants for Drinking Water State Revolving Funds loan proceeds on three projects in 2013. One project, the North City Pump Station, was in the engineering stage of construction. The remaining two projects, 615 Zone Expansion Improvements and Water Main Replacement, totaling \$550,997 were completed during this year. The District did not have adequate controls in place to ensure compliance with the following grant requirements for the two completed projects:

**Davis-Bacon Act**

For Federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. The Act also requires recipients of federal funds to obtain weekly certified payrolls for all contractors and subcontractors to ensure prevailing wages are paid.

During our audit, we noted the District did obtain weekly certified payroll for nine of the eleven pay periods for the 615 Zone Expansion Improvements and Water Main Replacement projects.

## **Procurement**

The District awarded a contract estimated at \$210,000 for 615 Zone Expansion Improvements, paid by Capitalization Grants for Drinking Water State Revolving Fund loan proceeds. The Federal Common Rule requires that construction projects exceeding \$100,000 be procured by sealed bids with formal advertising. The District was not aware this project required formal bidding and instead used a small works roster to contact contractors.

Under the grant agreement, the City was responsible for following federal and state laws and regulations.

### ***Cause of Condition***

The District was not experienced with administering federally funded programs and did not implement controls for this project to obtain copies of the weekly certified payrolls from contractors.

The District was not aware of the requirement to competitively bid projects that exceed the federal simplified acquisition threshold of \$100,000 and instead followed guidance from the State oversight Board stating the competitive bid threshold was \$300,000.

We consider these control deficiencies to be material weaknesses.

### ***Effect of Condition and Questioned Costs***

By not obtaining certified payrolls, the District could not ensure, prior to disbursement of loan funds, all contractors and subcontractors were paid prevailing wages as required by federal law. The District could be liable for paying additional wages if prevailing wage was not paid.

When services and purchases are made without a competitive process prescribed by federal guidelines, the District cannot ensure it received the best price. However, the services purchased are allowable under the federal program, and as a result, we are not questioning these costs.

### ***Recommendation***

We recommend the District establish and follow procedures to ensure federal requirements are understood and implemented by all staff responsible for administering federal programs. We also recommend the District ensure responsible staff is adequately trained and knowledgeable of federal compliance requirements, including the Davis Bacon Act and procurement, prior to requesting federal funding.

## ***District's Response***

*Thank you for working with North City Water District on the A-133 audit required by the U.S. Drinking Water State Revolving Fund. Your office has provided us with a preliminary draft of the SAO's Schedule of Federal Audit Findings and Questions Costs for 2013. In it, the SAO identifies two deficiencies which it considers to be "material weakness." The District staff has investigated the two issues, and with all due respect and appreciation for your work, we disagree. The District believes that neither issue rises to the level of a "material weakness," and therefore we ask the SAO office to reconsider its draft its draft conclusion.*

*At the outset, and to set the stage a bit, we note that the District was reimbursed \$1,351,612 from DWSRF loans proceeds on three projects in 2013. The largest of those, the North City Pump Station, involved \$760,668.30 in DWSRF funds. The audit revealed no issues with that project.*

*It is the other two projects about which the SAO has concerns. One is the 615 Zone Expansion Project, on which a contract was awarded to Interwest Construction, Inc., in the amount of \$189,455.00 plus WSST (or \$17,998.23, for a total contract of \$207,453.23) The other is the Water Main Replacement Project, on which a contract was awarded to Earthwork Enterprises, Inc. in the amount of \$391,183.27 (which included WSST). We will address both below.*

### ***Construction Contract Bidding Process***

*On the 615 Zone Expansion Project, the SAO draft says that, because the project cost more than \$100,000, the District should have used formal bidding instead of the small works roster process. There is some confusion here by the SAO. Upon advise of the State of Washington, the District utilized the small works roster to contact certain contractors, but the bidding process used included almost all aspects of formal, competitive bidding. We will explain what happened.*

*When the District began planning for this project, it consulted the DWSRF Borrower's Handbook, a 105 page booklet jointly prepared by Washington State's Department of Health's Office of Drinking Water, Department of Commerce's Contracts Administration Unit, and Public Works Board. Those three agencies are charged with jointly administering the DWSRF program.*

*This project was estimated to cost between \$180,000 and \$210,000. The Borrower's Handbook specifically states that the state's small works statute, RCW 39.04.155, may be utilized for projects under \$300,000. As a result, the District's consulting engineer (BHC Consultants) confirmed with the Department of Commerce that the small works roster process could be used.*

*As a result, in conformance with RCW 39.04.155, the District consulted its designated small works roster which was maintained by Municipal Research Services Center. The District selected five contractors from the small works roster and invited them to make bids. The District could have stopped there, as it had complied with the small works roster process.*

*But, the District went further. It satisfied all other requirements of RCW 57.08.050, for a formal bidding process applicable to water districts. That is, (1) the contractors were given the Notice 13 days prior to bid opening; (2) sealed bids were solicited on plans and specifications on file with the district; (3) a bid bond was required; and (4) the bid was to be awarded to the lowest responsive and responsible bidder. The only difference between what happened here and RCW 57.08.050 is that, instead of publishing the Notice in a newspaper of general circulation, the District provided it to five contractors on the District's small works roster.*

*In response to this Notice, by April 25, 2013, the District had received sealed bids from two contractors. The bids, opened at 9:00 a.m. that day, were \$189,455 and \$231,405, plus WSST. The District's consulting engineer evaluated both bids, compared them to the engineer's estimate, and concluded that the bidders and bids were acceptable. Thus, on May 2, 2013, the District awarded the contract to the low bidder, Interwest Construction, Inc.*

*Despite this process, the SAO's draft is saying that the Borrower's Handbook and the email direction received from the Department of Commerce were both wrong. The SAO is claiming that a small works process may only be used for contracts less than \$100,000, not \$300,000. As authority for that conclusion, the SAO draft cites Titles 40 and 41 of the U.S. Code. We are not certain this position is correct, for Title 40, section 35.6565 applies to procurement of "services, supplies, and or other property." However, a construction project is not a "procurement of services, supplies, or other property."*

*More importantly, even if the \$100,000 threshold is correct for small works process, for this \$207,453.23 contract, the District utilized a process that was in most respects a formal bidding process. And, the District's efforts resulted in competitive bidding, which is the goal of this entire process. This is not a "material weakness."*

### ***Prevailing Wages Statements***

*The second issue raised in the SAO's draft points out that the contractor and subcontractors on both the 615 Zone Expansion and Water Main Replacement projects did not submit weekly statements with respect to payment of wages to*

*their employees. We acknowledge that we did in fact, receive certified payrolls for the first week of both projects. But we did not receive certified payrolls for the remainder of the projects.*

*In addition, on both projects, the District obtained from the contractor and subcontractors the forms required by state law, a Statement of Intent to Pay Prevailing Wages at the beginning of the project and an Affidavit of Wages Paid at the end of the project. Both forms are completed on line, list the wages paid on the project and include this certification: "I hereby certify that I have read and understand the instructions to complete this form and that the information on the form and any addenda is correct and that all workers I employ(ed) on this Public Works Project (will be) (were) paid no less than the Prevailing Wage Rate(s) as determined by the Industrial Statistician of the Department of Labor and Industries." These documents, coupled with review of the first week's certified payrolls, lead the District to believe that the contractors were properly paying prevailing wages.*

*The 615 Zone Expansion project lasted three weeks, while the Water Main Replacement project lasted eight weeks. Therefore, what the District did not do properly is obtain nine of the eleven weekly wage statements. The question is, is this a "material weakness?"*

*The SAO's draft cites the AICPA's definition of "material weakness" as "a deficiency...such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented..." In other words, is there a reasonable possibility that the District's failure to obtain nine weekly prevailing wage statements would result in a material misstatement of the District's financial statements? The District thinks not.*

*The District's annual revenue during 2013 was \$6,372,462. The labor portion of the two contracts in question totaled \$134,458.80, or 2.1% of revenue. If the District had obtained the weekly prevailing wage statements, and discovered that the wages were not correctly paid, what is a reasonable amount the wages would have been incorrectly stated? Would that have been 10%? 20%? 30%? Using the most aggressive number, let us assume the wages were underpaid by 30% (a Flagger would go from \$34.61/hour to \$25.63/hour or a Pipe Layer to go from \$41.59/hour to \$29.11/hour after the first week of being paid the higher wage)? That would mean the District might, at the worst, be responsible for 30% of \$134,458.80 or \$40,337.49, which is 0.633% of its annual revenue.*

*That percentage, 0.633%, is obviously not material. And, even if it could be considered material, the District would only be responsible for that sum if the contractor, the contractor's principal who fraudulently signed the Affidavit of*

*Wages Paid, and its bonding company all would or could not pay the understated prevailing wages. Thus, the risk of financial impact to the District from this mistake is very low.*

*The District understands that it did not follow the federal requirement to review weekly prevailing wages statements throughout the entire project period for two small projects. The wages on the Statement of Intent forms submitted to the Department of Labor and Industries matched the first week's certified payroll. The District failed to continue collecting and monitoring the remaining nine weeks of certified payroll (two weeks on one project and seven weeks on the second project) and depended on the Affidavit of Wages Paid to confirm the employees received the same pay amount throughout the project. It has learned from its error, and will do so for the future pump station project estimated to cost \$4.3 million. We believe our error was not material.*

### **Conclusion**

*We ask the SAO to reconsider its draft "finding." While it is true that the District did not obtain weekly prevailing wage statements for nine of the eleven weeks on two projects, this deficiency was not material. And upon advice of the DWSFR Handbook and Department of Commerce, the District notified five contractors for the 615 Expansion project, but in all other respects conducted a fully competitive bidding process for construction of the project.*

### **Auditor's Remarks**

During our audit, we considered the information provided by the District and we reaffirm our finding. We look forward to reviewing the District's corrective action during our next audit.

### **Applicable Laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Subpart C, *Auditees*; Section 300 *Auditee responsibilities*.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Title 29, Code of Federal Regulations, Section 5.5, *Contract provisions and related matters*, states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a

different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses . . .

(3) *Payrolls and basic records.* (i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work . . .

(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency).

(B) Each payroll submitted shall be accompanied by a “Statement of Compliance,” signed by the contractor or subcontractor or his or her agent.

(6) *Subcontracts.* The contractor or subcontractor shall insert in any subcontracts the clauses contained in 29 CFR 5.5(a)(1) through (10) and such other clauses as the (write in the name of the Federal agency) may by appropriate instructions require, and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in 29 CFR 5.5.

(8) *Compliance with Davis-Bacon and Related Act requirements.* All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3 and 5 are herein incorporated by reference in this contract.

Title 29, Code of Federal Regulations, Section 3.3, *Weekly statement with respect to payment of wages*, states in part:

(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on

work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on the back of Form WH 347, "Payroll (For Contractors Optional Use)" or on any form with identical wording . . .

Title 40, Code of Federal Regulations, Part 35 – STATE AND LOCAL ASSISTANCE, Subpart O—Cooperative Agreements . . . states in part:

**§35.6565 Procurement methods.**

(b) *Sealed bids (formal advertising)*. (For a remedial action award contract, except for Architectural/Engineering services and post-removal site control, the recipient must obtain the award official's approval to use a procurement method other than the sealed bid method.) Bids are publicly solicited and a fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price.

(1) In order for the recipient to use the sealed bid method, the following conditions must be met:

- (i) A complete, adequate, and realistic specification or purchase description is available;
- (ii) Two or more responsible bidders are willing and able to compete effectively for the business; and
- (iii) The procurement lends itself to a fixed-price contract and the selection of the successful bidder can be made principally on the basis of price.

(2) If the recipient uses the sealed bid method, the recipient must comply with the following requirements:

- (i) Publicly advertise the invitation for bids and solicit bids from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids;
- (ii) The invitation for bids, which must include any specifications and pertinent attachments, must

define the items or services in order for the bidder to properly respond;

(iii) Publicly open all bids at the time and place prescribed in the invitation for bids;

(iv) Award the fixed-price contract in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, the recipient shall consider factors such as discounts, transportation cost, and life cycle costs in determining which bid is lowest. The recipient may only use payment discounts to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and

(v) If there is a sound documented reason, the recipient may reject any or all bids.

Title 41, United States Code, Chapter 7 – OFFICE OF FEDERAL PROCUREMENT POLICY, states in part:

**§403.11 Definitions.**

*States.* The term “simplified acquisition threshold” means \$100,000.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**North City Water District  
King County  
January 1, 2013 through December 31, 2013**

Board of Commissioners  
North City Water District  
Shoreline, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the North City Water District, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

### **District's Response to Findings**

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB

Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2013-002 to be a material weakness.

### **District's Response to Findings**

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'X'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

January 12, 2015

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED  
UNDER OMB CIRCULAR A-133**

**North City Water District  
King County  
January 1, 2013 through December 31, 2013**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the North City Water District.

<b>Finding ref number:</b> 2013-001 (report issued separately on December 22, 2014)	<b>Finding caption:</b> The District's internal controls were inadequate to ensure the District met federal single audit reporting requirements.
<b>Name, address, and telephone of auditee contact person:</b> Barbara Shosten 1519 N.E. 177th Street Shoreline, WA 98155 (206) 362-8100	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District will review OMB Circular A-133 to assure that all requirements are being met and produce a critical requirements list with a time line. Special attention will be given to anything triggering a federal single audit.</i>  <i>When preparing the annual financial statements, the current year's Budgeting, Accounting and Reporting System (BARS) manual will be reviewed to determine if the reporting criteria has changed and if so, implement the changes.</i>  <i>The District Manager will review all reports for compliance, accuracy and completeness.</i>	
<b>Anticipated date to complete the corrective action:</b> A check list is currently being prepared by the District Manager. Since the 2014 reports will be started in one month, the BARS manual for the 2014 statements will be checked for changes in reporting requirements for the Schedule of Expenditures of Federal Awards (SEFA) at that time.	

<b>Finding ref number:</b> 2013-002	<b>Finding caption:</b> The District's internal controls were inadequate to ensure compliance with federal Davis-Bacon Act (prevailing wage) and procurement requirements.
<b>Name, address, and telephone of auditee contact person:</b> Diane Pottinger, P.E. 1519 N.E. 177th Street Shoreline, WA 98155 (206) 362-8100	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District will not use a small works roster for federally funded projects that are estimated to cost more than \$100,000. The District will also collect certified weekly payroll from our contractor as part of our federally funded projects.</i>	
<b>Anticipated date to complete the corrective action:</b> Immediately	

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>